



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ROWAN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHERIFF'S SETTLEMENT - 2000 TAXES

April 30, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Rowan County Sheriff as of April 30, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$3,979,069 for the districts for 2000 taxes. The Sheriff distributed taxes of \$3,982,949 to the districts for 2000 Taxes. Refunds of \$6,465 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Eliminate The Cumulative Deficit Of \$1,640 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Subsequent Events:

Subsequent to April 30, 2001, the Sheriff eliminated the deficit in the tax account by depositing a personal check in the amount of \$1,640 into the tax account.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the Rowan County Sheriff's Settlement - 2000 Taxes as of April 30, 2001. This tax settlement is the responsibility of the Rowan County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rowan County Sheriff's taxes charged, credited, and paid as of April 30, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Should Eliminate The Cumulative Deficit Of \$1,640 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 11, 2002

ROWAN COUNTY
JACK CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

April 30, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 299,803	\$ 331,361	\$ 2,103,882	\$ 742,599
Tangible Personal Property	33,821	30,907	194,166	172,634
Intangible Personal Property				72,895
Fire Protection	946			
Increases Through Exonerations	73	33	210	117
Franchise Corporation	82,735	44,840	284,075	
Additional Billings	725	799	5,105	1,887
Clay Reserves	40	45	283	100
Penalties	3,123	3,371	21,414	7,599
Adjusted to Sheriff's Receipt	(37)	14	(8)	(34)
Gross Chargeable to Sheriff	<u>\$ 421,229</u>	<u>\$ 411,370</u>	<u>\$ 2,609,127</u>	<u>\$ 997,797</u>
<u>Credits</u>				
Exonerations	\$ 3,057	\$ 3,380	\$ 21,456	\$ 7,635
Discounts	5,055	5,049	32,028	14,504
Delinquents:				
Real Estate	14,605	16,092	102,198	36,113
Tangible Personal Property	719	658	4,152	4,359
Intangible Personal Property				220
Uncollected Franchise Corporation	1,673	1,607	10,234	
Credit For Amount Charged To Prior Year Settlement	<u>602</u>	<u>570</u>	<u>3,629</u>	
Total Credits	<u>\$ 25,711</u>	<u>\$ 27,356</u>	<u>\$ 173,697</u>	<u>\$ 62,831</u>
Net Tax Yield	\$ 395,518	\$ 384,014	\$ 2,435,430	\$ 934,966
Less: Commissions *	<u>17,097</u>	<u>16,321</u>	<u>97,417</u>	<u>40,024</u>
Net Taxes Due	\$ 378,421	\$ 367,693	\$ 2,338,013	\$ 894,942
Taxes Paid	378,938	367,881	2,341,223	894,907
Refunds (Current and Prior Year)	<u>240</u>	<u>253</u>	<u>1,614</u>	<u>478</u>
Refund Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (757)</u>	<u>\$ (441)</u>	<u>\$ (4,824)</u>	<u>\$ (443)</u>

* and ** see page 4

ROWAN COUNTY
JACK CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
April 30, 2001
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,704,498
4% on	\$	2,435,430

** Special Taxing Districts:

Library District	\$	(153)
Health District		<u>(288)</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>(441)</u></u>

The accompanying notes are an integral part of the financial statement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 15, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$433,618 of public funds uninsured and unsecured.

ROWAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 30, 2001
 (Continued)

Note 2. Deposits (Continued)

The Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the Sheriff as of December 15, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,406,337
Insured by Federal Deposit Insurance Corporation	100,000
Uncollateralized and uninsured	<u>433,618</u>
Total	<u>\$ 2,939,955</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2000 through April 30, 2001.

Note 4. Interest Income

The Rowan County Sheriff earned \$6,146 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Rowan County Sheriff collected \$26,346 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs

The Rowan County Sheriff collected \$1,450 of advertising costs allowed by KRS 424.330(1). Since the Sheriff paid advertising costs from his fee account, he should use these fees to reimburse his fee account for advertising costs. The Sheriff paid \$618 and as of February 11, 2002, the Sheriff owes \$832 in advertising costs to his fee account.

Note 7. Deficit Balance

Based on available records there is a \$1,640 deficit in the Sheriff's official tax account. This deficit results from undeposited tax receipts from prior years. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits in the official's tax account.

Note 8. Subsequent Events

Subsequent to April 30, 2001, the Sheriff eliminated the deficit in the tax account by depositing a personal check in the amount of \$1,640 into the tax account.

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

ROWAN COUNTY
JACK CARTER, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 30, 2001

Assets

Cash in Bank (All Tax Accounts)			\$	142,831
Deposits in Transit				145,423
Receivables-				
1998 Taxes:				
State	\$	162		
Rowan County Fiscal Court		913		
Library District		66		
School District		279	\$	1,420
1999 Taxes:				
Rowan County Fiscal Court	\$	310		
School District		185		495
2000 Taxes:				
State	\$	443		
Rowan County Fiscal Court		757		
School District		4,824		
Library District		153		
Health District		288		6,465
2001 Fee Account				76
				<u>8,456</u>
Total Assets			\$	<u>296,710</u>

Liabilities

Paid Obligations-				
Outstanding Checks			\$	288,091
Unpaid Obligations-				
Amounts Due to Sheriff's Fee Account for:				
1996 Taxes	\$	921		
1997 Taxes		2,187		
1998 Taxes		4,479		
1999 Taxes		1,284		
2000 Taxes		1,201		10,072
1999 Taxes Due Districts:				
State	\$	49		
Library District		14		
Health District		124		187
Total Liabilities			\$	<u>298,350</u>
Total Fund Deficit as of April 30, 2001			\$	<u><u>(1,640)</u></u>

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COMMENTS AND RECOMMENDATIONS

ROWAN COUNTY
JACK CARTER, SHERIFF
COMMENTS AND RECOMMENDATIONS

April 30, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate The Cumulative Deficit Of \$1,640 In The Tax Account

Based on available records, there was a cumulative deficit of \$1,640 in the Sheriff's tax account. This resulted primarily from undeposited tax receipts from prior years. The cumulative deficit indicates that the prior year cumulative deficit of \$6,166 has been partially eliminated. We recommend the Sheriff deposit \$1,640 from personal funds into the tax account to eliminate this deficit. We also recommend the Sheriff collect the receivables from prior years and pay the liabilities from prior years as listed on the Schedule Of Excess Of Liabilities Over Assets in order to close out this tax account.

Sheriff's Response:

I will write a check today.

Auditor's Note:

On February 11, 2002, Rowan County Sheriff Jack Carter deposited personal funds of \$1,640 to eliminate this deficit.

2. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 15, 2000, \$433,618 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

We have raised that this year.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Eliminate The Cumulative Deficit of \$6,166 In Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Honorable Jack Carter, Rowan County Sheriff

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Rowan County Sheriff's Settlement - 2000 Taxes as of April 30, 2001, and have issued our report thereon dated February 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's Settlement - 2000 Taxes as of April 30, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Cumulative Deficit Of \$1,640 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 11, 2002

